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Proposed programme budget for the biennium 2008-2009

Capital master plan

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the fifth annual progress report of the Secretary-General on the implementation of the capital master plan (A/62/364). It has also considered the report of the Board of Auditors on the capital master plan for the biennium ended 31 December 2006 (A/62/5 (vol. V)). During its consideration of the reports, the Advisory Committee met with the Executive Director of the capital master plan project and other representatives of the Secretary-General, as well as with the representatives of the Audit Operations Committee of the Board of Auditors.

2. In its resolution 61/251, the General Assembly approved the financing of the capital master plan. A new Executive Director was appointed on 2 July 2007, following the resignation of the former Executive Director in June 2006, and on 31 July 2007, the Organization awarded the contract for construction management services to Skanska Building USA (hereinafter referred to as Skanska).

3. The Advisory Committee notes that the Board of Auditors, in its aforementioned report on the capital master plan for the year ended 31 December 2006, concluded that the implementation of the plan was at that time about one year behind schedule and would be at least $148 million over the approved budget of $1,876.7 million (para. 49). In its report, the Board of Auditors outlines factors that contributed to delay and cost escalation and makes a number of important recommendations on the project, including the following main recommendations, according to which the management ought to:

(a) Consider bringing preparatory work forward to make up for delays, initiate deferred technical studies and establish the security rules that will apply to the project and the worksite;

(b) Adopt a procedure for deciding on staff movements;

(c) Expedite the recruitment of an Executive Director and give high priority to filling the vacancies still remaining in the Office of the capital master plan.

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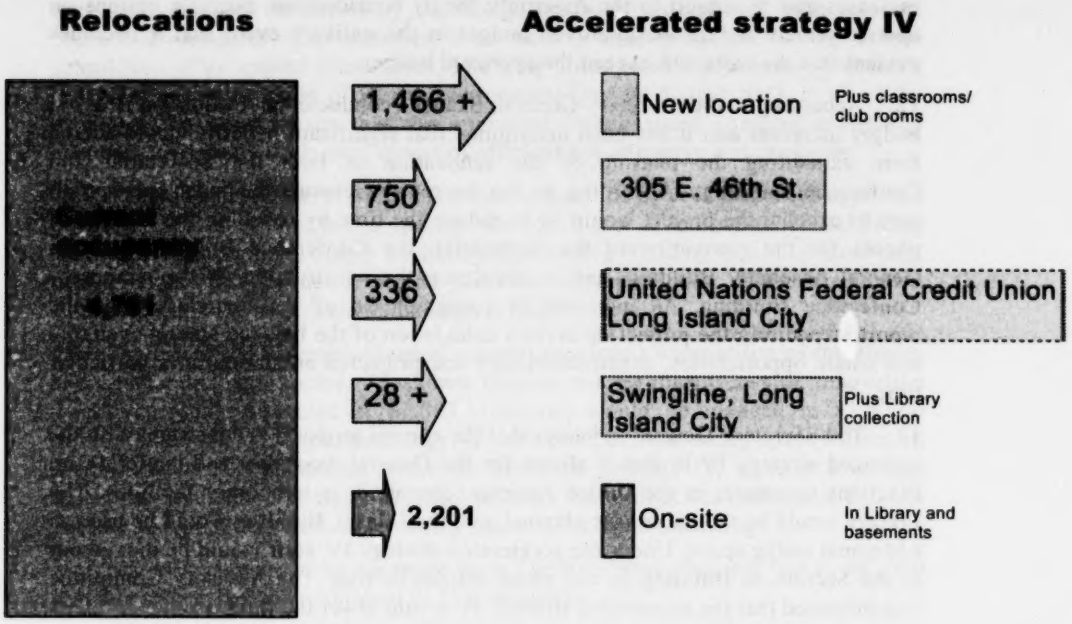
4. Among important findings of the Board of Auditors were those related to anticipation and management of risks (paras. 51-62). It observed that a draft risk-assessment study prepared by the programme management firm had underscored the fact that a number of technical surveys and studies were lacking, including surveys of the soil under the building and studies on the impact of blast-resistance provisions on the facade design. The Board pointed out that without analysis of test results of geotechnical surveys and studies on blast effects, there was a risk that the buildings' foundations and structures might need strengthening or inspecting, which might incur additional costs and delays. Upon enquiry, the Advisory Committee was informed that the studies for blast resistance were well under way and that work had begun for geotechnical and exploratory surveys relating specifically to design of the temporary Conference Building.

5. The Advisory Committee notes that one of the risks identified by the management firm was the lack of commitment to the project on the part of all United Nations departments concerned and, in consequence, their insufficient responsiveness. **References in paragraph 63 of the report of the Board of Auditors to procedural difficulties in United Nations departments, delays in decision-making and insufficient responsiveness to the needs of the project indicate that the capital master plan would have benefited from stronger senior leadership, especially during the absence of an Executive Director. The Committee underscores the need for strong commitment to the project from all departments under the leadership of the Secretary-General.**

6. With regard to the recommendation of the Board of Auditors on relocation of staff, the Advisory Committee notes from the report that, although efforts have been made to lease additional swing space to accommodate staff that need to be relocated, the search for additional swing space was ongoing. As indicated in the report, the Organization entered into a lease in July 2007 for office space located at 305 East 46th Street to accommodate about 750 staff members. In November 2007, the Organization plans to enter into a lease for 42,000 rentable square feet of office space in a newly constructed office building located in Long Island City. An additional location in Long Island City has been identified and lease negotiations are in the process. Upon enquiry, the Committee was informed that hazardous materials had been found in of one of the swing space buildings and that, in accordance with local laws, the landlord would remove them at his own expense.

7. Upon request, the Advisory Committee was provided with the following information on the number of people who, under the accelerated strategy IV, would be relocated to swing space outside the campus and on the number of people who would be relocated to areas on-site, including swing space in the third basement, as well as the Library Building:



8. The Board of Auditors had made critical comments on the slow pace of filling vacancies, the delay in the appointment of an Executive Director and the failure of the Department of Management to adapt its resources to the needs of the project. As indicated above, the Executive Director of the project was appointed in July 2007. The Advisory Committee was informed that all vacancies in the Office of the Capital Master Plan would be filled during the month of October 2007.

9. With regard to the recommendation of the Board of Auditors on the establishment of the long-awaited advisory board on the capital master plan, the Advisory Committee notes the intention of the Administration to do so, on a broad geographical basis (A/61/5 (vol. V), paras. 33-34). The Committee recalls that the General Assembly highlighted the importance of this issue (see resolution 61/251, para. 40). The Committee reiterates its previous recommendations in this respect (see A/59/556, para. 12, A/60/7/Add.12, para. 25, and A/61/595, para. 18). **Therefore, the Committee expects that the advisory board will be established without further delay.**

10. **The recommendations of the Board of Auditors are pertinent and focused and the Advisory Committee welcomes the fact that the Administration has accepted all the recommendations of the Board. These recommendations should be implemented expeditiously. The Committee requests the Board to validate the implementation of the recommendations in its forthcoming report on the capital master plan.**

11. In his report, the Secretary-General indicates that, as at September 2007, the cost of the project was estimated at $2,096.3 million, or $219.6 million over the approved budget of $1,876.7 million (A/62/364, para. 23, and table 1). The Advisory Committee recalls that, in paras. 11 and 12 of its resolution 61/251, the General Assembly requested the Secretary-General to make every effort to avoid budget

increases and to submit to the Assembly for its consideration possible options on how to remain within the approved budget in the unlikely event that it becomes evident that the costs will exceed the approved budget.

12. According to the Secretary-General, Skanska conducted an evaluation to avoid budget increases and it has been determined that significant benefits would accrue from expediting the phasing of the renovation of both the Secretariat and Conference Buildings. According to the Secretary-General, the most appropriate way to execute the project would be to reduce the time by reducing the number of phases for the renovation of the Secretariat, the Conference Building and the General Assembly Building, and to accelerate the construction of the temporary Conference Building. As indicated in paragraph 26 of the Secretary-General's report, expediting the project involves a calculation of the balance among available real estate opportunities, construction cost and projected escalation, at a particular time.

13. The Secretary-General indicates that the current proposal is consistent with the approved strategy IV in that it allows for the General Assembly and conferencing functions to remain in the United Nations compound, in temporary facilities. The Library would be moved out, as planned, and the Library Building would be used as additional swing space. Under the accelerated strategy IV, staff would be moved out of the Secretariat Building in one phase instead of four. The Advisory Committee was informed that the accelerated strategy IV would lower the risks of:

- The construction impacts on United Nations activities and staff functions. The possibility of a construction-related incident or accident, in close proximity to staff, would be diminished
- The possibility for the United Nations staff and delegations to have an impact on the cost of construction, for example, the possibility of noise and other disturbances requiring United Nations staff and delegations to ask for pauses in the construction schedule, thereby causing significant cost increases, would be greatly diminished
- Unanticipated escalation of the cost of construction: the longer the schedule, the higher the risk that inflation could unexpectedly exceed projections. Under the accelerated strategy IV, the bulk of the construction contracts would be negotiated and settled within 2008 and 2009, rather than stretching out to 2012. Skanska could then buy all the materials for future delivery, thus locking in 2008 prices.

14. Upon enquiry, the Advisory Committee was informed that the major advantage of the accelerated strategy IV was that the entire project would be completed in five years, rather than seven (in 2013, rather than in 2015), thus reducing the disruption to the operations of the Organization by two years. Furthermore, the Office of the Secretary-General would remain on-site. The Committee was informed that Skanska's initial review had indicated the possibility of renovating an empty Secretariat Building in three years, rather than six and a half years, at significant savings to the United Nations.

15. The Advisory Committee was informed that the design teams had been instructed to follow local codes and requirements in all of the design work. In addition to the expertise in each of the design teams, the Office of the Capital Master Plan has a direct contract with an independent code expert, who reviews

each code analysis submitted by the design teams for compliance with relevant codes and standards. The intention is to have a code-compliant facility at the completion of the capital master plan. The Committee notes the Secretary-General's statement on the occasion of World Environment Day, on 5 June 2007, in which he expresses the hope to see that the renovated Headquarters complex eventually becomes "a globally acclaimed model of efficient use of energy and resources".

16. The Secretary-General states his intent to keep the project within the approved budget of $1.876 billion. In his opinion, the added cost of leasing additional swing space and constructing a bigger temporary Conference Building would be more than offset by the cost savings expected from the implementation of the accelerated strategy IV and the associated value engineering exercise.

17. Table 1 of the Secretary-General's report provides a comparison of the phased and accelerated approaches. As shown therein, the estimated cost of renovation works, currently projected at $1,863.3 million, would be reduced to $1,677.0 million under the accelerated strategy IV. The estimates for swing space reflect an increase from $214.5 million under the approved strategy IV, to $389.8 million under the accelerated strategy IV. The Advisory Committee was informed that the net increase of $175.3 million for swing space reflects the following:

(a) An increase in swing space from 220,000 rentable square feet to 642,000 rentable square feet (an additional $125.5 million);

(b) A reduction of $2.7 million in estimates for Library swing space, largely owing to a decrease in rentable square feet from 80,000 to 55,000 and to a shorter rental period;

(c) An additional $52.5 million on account of an increase in the space in the temporary Conference Building from 101,000 square feet to 176,000 square feet.

18. The Advisory Committee notes from table 1 that a projected amount of $190.1 million is shown as savings that need to be identified through the value engineering exercise in order to bring the capital master plan project back to within the budget parameters set out in resolution 61/251. The Committee was informed that the value engineering exercise was the process of reviewing the objectives of the project and the actual design work and finding ways of achieving the same objectives at a lower cost. As a key element of its pre-construction responsibilities, the construction manager will make value engineering recommendations.

19. Upon enquiry, the Advisory Committee was informed of the following. Currently, Skanska was not yet required nor was it able to provide firm pricing in writing. As Skanska managers acquainted themselves in more and more detail with the design documents, their total project estimate would be more fine-tuned and adjusted, as necessary. According to the contract, Skanska would be required to provide a series of guaranteed maximum price proposals to the United Nations, which would then be reviewed for competitiveness and could be accepted or rejected by the Organization. The guaranteed maximum price proposals should be submitted by Skanska not later than eight weeks after receiving from the United Nations construction document drawings that were 100 per cent complete for each sub-project. Information on the status of the design drawings per contract is contained in paragraph 7 of the Secretary-General's report.

20. Upon request, the Advisory Committee was provided with cost estimates reflecting the potential impact of the value engineering exercise (see annex I to the present report). The Committee observes that, compared to the currently estimated cost of the approved strategy IV as at August 2007, these estimates reflect a reduction of $195.4 million under construction costs, a reduction of $11.7 million under contingencies, a reduction of $27.0 million under professional fees and management costs and a reduction of $142.6 million under forward pricing of cost escalation. **The Committee is of the view that the planned value engineering exercise is worth pursuing, while recognizing that the full extent of benefits and savings to be realized remains to be seen.**

21. As indicated in the report, the replacement of furniture and equipment will remain necessary; the costs thereof are not included in the capital master plan budget but will be presented to the General Assembly for its consideration, once fully identified (see A/62/364, paras. 34-35). Upon enquiry, the Advisory Committee was informed that those costs covered a wide range of requirements, such as broadcast equipment, new furniture, moving and storing of gifts, storage space for gifts, moving supplies and services, archive space and storage facilities, and additional staffing requirements to manage information and communications technology needs and facilities management and security. The Committee was also informed that those requirements would be presented to the Assembly at its resumed sixty-second session. **The Committee is of the view that the associated costs should be considered in the context of discussions on the capital master plan.**

22. Paragraph 40 of the Secretary-General's report deals with the issue of the internationally syndicated letter of credit. According to the Secretary-General, the Office of the Capital Master Plan has been able to give sufficient assurance to the construction manager that funding for the plan is adequate to cover the cost of construction and it has not so far been necessary to establish a letter of credit. However, the Secretary-General requests that the approval to establish a letter of credit provided in resolution 61/251 be maintained. **In this connection, the Advisory Committee recalls that the General Assembly, in paragraph 31 of its resolution 61/251, decided that, notwithstanding financial regulation 3.1, any charges arising from a drawdown on the letter of credit would not be a charge on Member States that have paid in full their capital master plan assessments for the applicable period within the 120 days of the issuance of the letters of assessment.**

23. As indicated in paragraph 41 of the Secretary-General's report, as at 21 September 2007, an amount of $11.6 million remained due and payable to the working capital reserve fund for the capital master plan. The fund, amounting to $45 million, was established pursuant to resolution 61/251.

24. Information on the status of appropriations and expenditures related to the capital master plan is contained in paragraphs 42 to 45 of the Secretary-General's report (see also A/61/5 (vol. V), para. 30). The Advisory Committee notes that the appropriation and expenditure figures shown in table 3 of the report do not include the $8.0 million appropriated by the General Assembly in its resolution 55/238; however, the expenditure of $8.0 million is included in the total revised project budget of $1,876.7 million for the capital master plan. Upon request, the Committee was provided with an updated table 3 which shows that expenditures for the period 2003-2007 for the design development and construction documents phases and

pre-construction services are currently estimated at $93.9 million (see annex II to the present report).

25. According to the Secretary-General, unlike the original strategy IV, the adoption of accelerated strategy IV would not lead to a change in the total approved budget of the project ($1,876.7 million), or the distribution over time of the assessments required to finance the capital master plan (see A/62/364, para. 43).

26. **Although there are uncertainties and risks in the process of implementation, the Advisory Committee sees merit in the accelerated strategy IV of the capital master plan, after taking into account the information and assurances provided in the Secretary-General's report in relation to the reduction of the time frame for completion of the project and to the maintaining of its cost within the budget approved by the General Assembly in its resolution 61/251. On this basis, the Committee recommends that the Assembly approve the accelerated strategy IV and authorize the appropriation of $992.8 million, which would comprise $651.8 million in 2008 (including $310.8 million carried over from 2007) and $341.0 million in 2009. The Committee also recommends that the next progress report on the status of the capital master plan project include detailed information on all aspects of the project, including its schedule, actual and projected costs, associated costs, the status of contributions, the working capital reserve, the status of the Advisory Board and the letter of credit.**

Annex I

Comparison of phased and accelerated approaches[a]

(Millions of United States dollars)

	Approved strategy IV[b]	*Approved strategy IV*[c]	*Approved strategy IV as at August 2007*[c,d]	*Proposed accelerated strategy IV*[c,d] *(single phase)*	*Proposed accelerated strategy IV (single phase) after incorporating value engineering*[c,d]
Construction	739.1	935.3	1 022.4	964.6	827.0
Contingencies	167.9	199.9	199.9	199.9	188.2
Professional fees, management costs	206.9	231.0	261.5	234.5	234.5
Forward pricing escalation	317.9	296.0	379.6	278.0	237.0
Subtotal, renovation	**1 431.8**	**1 662.2**	**1 863.3**	**1 677.0**	**1 486.7**
Office swing space	129.1	129.1	144.3	254.5	254.5
Library swing space	19.3	19.3	14.1	16.6	16.6
Conference swing space	66.1	66.1	74.6	118.7	118.7
Subtotal, swing space estimate	**214.5**	**214.5**	**233.0**	**389.8**	**389.9**
Subtotal, scope options	**230.4**	**Included above**	**Included above**	**Included above**	**Included above**
Total project	**1 876.7**	**1 876.7**	**2 096.3**	**2 066.8**	**1 876.0**
Variance against approved budget			219.6	190.1	0.0
Amount to be identified for savings through value engineering			219.6	190.1	0.0

[a] All pricing is as at 1 January 2006 and the current year.
[b] 2006 pricing.
[c] Scope option cost layered into renovation costs.
[d] Currently projected pricing.

Annex II

Expenditures for the period 2003-2007 for the design development and construction documents phases and pre-construction services

(Thousands of United States dollars)

	2003[a]	*2004*[a]	*2005*[a]	*2006*[a]	*January-September 2007*[b]	*Total*
Design contractual services	612.1	9 573.9	2 724.1	22 426.9	9 969.7	**45 306.7**
Direct staff costs	1 611.1	1 720.9	1 458.3	1 569.4	1 647.5	**8 007.2**
Support costs	180.6	574.2	593.4	587.1	590.4	**2 525.7**
Operating and other costs	556.0	589.3	478.1	570.0	577.5	**2 770.9**
Programme management and consultants	245.7	2 378.5	752.9	4 524.8	2 567.6	**10 469.5**
Construction manager	—	—	—	—	7 022.0	**7 022.0**
Swing space cost	—	—	506.3	6 848.0	12 006.3	**19 360.6**
Subtotal	**3 205.5**	**14 836.8**	**6 513.1**	**36 526.2**	**34 381.0**	**95 462.6**
Savings on prior periods' obligations	—	(2.7)	(10.0)	(1 512.4)	—	**(1 525.1)**
Total	**3 205.5**	**14 834.1**	**6 503.1**	**35 013.8**	**34 381.0**	**93 937.5**

[a] Actual recorded expenditures.
[b] Preliminary expenditures.